CHAPTER 8
PERFORMANCE APPRAISAL

CHAPTER DESCRIPTION

After describing the 360-degree feedback evaluation method, we begin this chapter by defining *performance appraisal* and discussing its relationship to performance management. We then explain the uses made of appraisal data and the environmental factors affecting the performance appraisal process. Then we identify the potential aspects of a person's performance to consider for evaluation, the individuals responsible for appraisal, and the appraisal period. Next, we discuss the various performance appraisal methods, the use of computer software in performance appraisal, the problems associated with performance appraisal, and the characteristics of an effective appraisal system. This chapter concludes with discussions of the legal aspects of performance appraisal and the appraisal interview.

KEY TERMS

360-degree feedback evaluation: An increasingly popular appraisal method that involves evaluation input from multiple levels within the firm and external sources as well.

Performance appraisal (PA): A formal system of review and evaluation of individual or team task performance.

Performance management: A process that significantly affects organizational success by having managers and employees work together to set expectations, review results, and reward performance.

Competencies: Include a broad range of knowledge, skills, traits and behaviors that may be technical in nature, relate to interpersonal skills or be business oriented.

Rating scales method: A widely used performance appraisal method that rates employees according to defined factors.

Critical incident method: A performance appraisal technique that requires a written record of highly favorable and highly unfavorable employee work behavior.

Essay method: A performance appraisal method in which the rater writes a brief narrative describing an employee's performance.

Work standards method: A performance appraisal method that compares each employee's performance to a predetermined standard or expected level of output.

Ranking method: A job evaluation method in which the rater simply places all employees from a group in rank order of overall performance.

Paired comparison: A variation of the ranking method of performance appraisal in which the performance of each employee is compared with that of every other employee in the group.

Forced distribution method: An appraisal approach in which the rater is required to assign individuals in a workgroup to a limited number of categories similar to a normal frequency distribution.

Forced-choice performance report: A performance appraisal technique in which the rater is given a series of statements about an individual and indicates which items are most or least descriptive of the employee.

Behaviorally anchored rating scale (BARS) method: A performance appraisal method that combines elements of the traditional rating scale and critical incident methods.

Halo error: The perception by an evaluator that one factor is of paramount importance and then gives a good or bad overall rating to an employee based on this particular factor.

Leniency: Giving an undeserved high performance appraisal rating to an employee.

Strictness: Being unduly critical of an employee's work performance.

Central tendency: A common error in performance appraisal that occurs when employees are incorrectly rated near the average or middle of a scale.

LECTURE OUTLINE

THE 360-DEGREE FEEDBACK EVALUATION
An appraisal method that involves evaluation input from multiple levels within the firm and external sources as well.

PERFORMANCE APPRAISAL DEFINED

PERFORMANCE APPRAISAL—A formal system of review and evaluation of an individual or team's job performance.

PERFORMANCE MANAGEMENT—A process that significantly affects organizational success by having managers and employees work together to set expectations, review results and reward performance.

APPRAISER DISCOMFORT—Going through the procedure cuts into a manager's high-priority workload and the experience can be especially unpleasant when the employee in question has not performed well.

EMPLOYEE ANXIETY—The evaluation process may also create anxiety for the appraised employee.

RATIONALE FOR PERFORMANCE APPRAISAL—Performance appraisals provide so many important legal and other benefits that employers should be reluctant to part with them.

USES OF PERFORMANCE APPRAISAL
Performance appraisal data are potentially valuable for use in numerous human resource functional areas.

HUMAN RESOURCE PLANNING—In assessing a firm's human resources, data must be available that describe the promotability and potential of all employees, especially key executives.

RECRUITMENT AND SELECTION—Performance evaluation ratings may be helpful in predicting the future performance of job applicants.

TRAINING AND DEVELOPMENT—A performance appraisal should point out an employee's specific needs for training and development.

CAREER PLANNING AND DEVELOPMENT—Career planning and development may be viewed from either an individual or organizational viewpoint.

COMPENSATION PROGRAMS—Performance appraisal results provide the basis for decisions regarding pay increases.

INTERNAL EMPLOYEE RELATIONS—Performance appraisal data are also frequently used for decisions in areas of internal employee relations including motivation, promotion, demotion, termination, layoff, and transfer.

ASSESSMENT OF EMPLOYEE POTENTIAL—Some organizations attempt to assess employee potential as they appraise job performance.

PERFORMANCE APPRAISAL ENVIRONMENTAL FACTORS
Many of the external and internal environmental factors can influence the appraisal process.

THE PERFORMANCE APPRAISAL PROCESS

CONSIDER EXTERNAL AND INTERNAL ENVIRONMENT

IDENTIFY SPECIFIC PERFORMANCE APPRAISAL GOALS

ESTABLISH JOB EXPECTATIONS (JOB ANALYSIS)

EXAMINE WORK PERFORMED

APPRAISE PERFORMANCE

DISCUSS APPRAISAL WITH EMPLOYEE

ESTABLISH PERFORMANCE CRITERIA
The most common sets of appraisal criteria are traits, behaviors, and task outcomes.

TRAITS—Many employees in organizations are evaluated on the basis of certain traits such as *attitude*, *appearance*, *initiative*, etc.

BEHAVIORS—When an individual's task outcome is difficult to determine, it is common to evaluate the person's task-related behavior.

COMPETENCIES—Include a broad range of knowledge, skills, traits and behaviors that may be technical in nature, relate to interpersonal skills or be business oriented.

GOAL ACHIEVEMENT—If ends are considered more important than means, goal achievement becomes the most appropriate factor to evaluate.

IMPROVEMENT POTENTIAL—Some attention must be given to the future and the behaviors and outcomes that are needed to not only develop the employee, but also achieve the firm's goals.

RESPONSIBILITY FOR APPRAISAL
In most organizations, the human resource department is responsible for coordinating the design and implementation of performance appraisal programs.

IMMEDIATE SUPERVISOR—An employee's immediate supervisor traditionally has been the most common choice for evaluating performance.

SUBORDINATES—Some managers have concluded that evaluation of managers by subordinates is feasible.

PEERS—Peer appraisal has long had proponents who believed that such an approach is reliable if the workgroup is stable over a reasonably long period of time and performs tasks that require considerable interaction.

SELF-APPRAISAL—If individuals understand the objectives they are expected to achieve and the standards by which they are to be evaluated, they are—to a great extent—in the best position to appraise their own performance.

CUSTOMER APPRAISAL—The behavior of customers determines the degree of success a firm achieves. Therefore, some organizations believe it is important to obtain performance input from this critical source.

THE APPRAISAL PERIOD
Performance evaluations are typically prepared at specific intervals. In most organizations these evaluations are made either annually or semiannually.

PERFORMANCE APPRAISAL METHODS
The type of performance appraisal system utilized depends on its purpose.

360-DEGREE FEEDBACK EVALUATION—Involves input from multiple levels within the firm and external sources as well.

RATING SCALES—Rates employees according to defined factors. The factors chosen for evaluation are typically of two types: job-related and personal characteristics.

CRITICAL INCIDENTS—Requires written records be kept of highly favorable and highly unfavorable work actions.

ESSAY—The rater simply writes a brief narrative describing the employee's performance. This method tends to focus on extreme behavior in the employee's work rather than routine day-to-day performance.

WORK STANDARDS—Compares each employee's performance to a predetermined standard, or expected level of output.

RANKING—The rater simply places all employees in a given group in rank order on the basis of their overall performance.

PAIRED COMPARISON—A variation of the ranking method that involves comparing the performance of each employee with every other employee in the group.

FORCED DISTRIBUTION—An appraisal approach where the rater is required to assign individuals in the workgroup to a limited number of categories similar to a normal frequency distribution.

BEHAVIORALLY ANCHORED RATING SCALES—A performance appraisal method that combines elements of the traditional rating scales and critical incidents methods.

RESULTS-BASED SYSTEMS—A performance appraisal method in which the superior and the subordinate jointly agree on objectives for the next appraisal period.

ASSESSMENT CENTERS—Recognizing the differences in purposes, and the difficulty that a performance appraisal system will have in achieving both aims, some firms opt to use an assessment center as an adjunct to their appraisal system.

USE OF COMPUTER SOFTWARE
Computer software is available for recording the appraisal data. A big advantage in utilizing the computer is reduction of paperwork required.

PROBLEMS IN PERFORMANCE APPRAISAL
Many of the problems commonly mentioned are not inherent in the method but, rather, reflect improper usage.

LACK OF OBJECTIVITY—A potential weakness of traditional methods of performance appraisal is that they lack objectivity.

BIAS—A bias may be either positive or negative.

LENIENCY/STRICTNESS—The giving of undeserved high or low ratings.

CENTRAL TENDENCY—Occurs when employees are incorrectly rated near the average or middle of the scale.

RECENT BEHAVIOR BIAS—Performance appraisals generally cover a specified period of time and an individual's performance should be considered for the entire period.

PERSONAL BIAS (STERROTYPING)—Supervisors doing performance appraisals may have biases related to their employees' personal characteristics such as race, religion, gender, disability, or age group.

MANIPULATING THE EVALUATION—In some instances, supervisors control virtually every aspect of the appraisal process and are therefore in a position to manipulate the system.

CHARACTERISTICS OF AN EFFECTIVE APPRAISAL SYSTEM
Systems that possess certain characteristics may be more legally defensible.

JOB-RELATED CRITERIA—The criteria used for appraising employee performance must be job related.

PERFORMANCE EXPECTATIONS—Managers must clearly explain their performance expectations to their subordinates in advance of the appraisal period.

STANDARDIZATION—Employees in the same job categories under a given supervisor should be appraised using the same evaluation instrument.

TRAINED APPRAISERS—In order to ensure consistency, appraisers must be well trained.

CONTINUOUS OPEN COMMUNICATION—A good appraisal system provides highly desired feedback on a continuing basis.

PERFORMANCE REVIEWS—Since improved performance is a common goal of appraisal systems, withholding appraisal results is absurd.

DUE PROCESS—A formal procedure should be developed—if one does not exist—to permit employees the means for appealing appraisal results that they do not consider accurate or fair.

LEGAL IMPLICATIONS
With the enactment of the Americans with Disabilities Act and the civil rights legislation, employers must prepare for more discrimination lawsuits and jury trials related to performance appraisal system.

THE APPRAISAL INTERVIEW
The appraisal interview is the Achilles' heel of the entire evaluation process.

SCHEDULING THE INTERVIEW—Supervisors usually conduct a formal appraisal interview at the end of an employee's appraisal period.

INTERVIEW STRUCTURE—A successful appraisal interview should be structured in a way that allows both the supervisor and the subordinate to view it as a problem solving rather than a faultfinding session.

USE OF PRAISE AND CRITICISM—Praise should be provided when warranted, but it can have only limited value if not clearly deserved; criticism, even if warranted, is especially difficult to give.

EMPLOYEES' ROLE—Two weeks or so before the review, they should go through their diary or files and make a note of every project worked on, regardless of whether they were successful or not.

CONCLUDING THE INTERVIEW—Ideally, employees will leave the interview with positive feelings about management, the company, the job, and themselves.